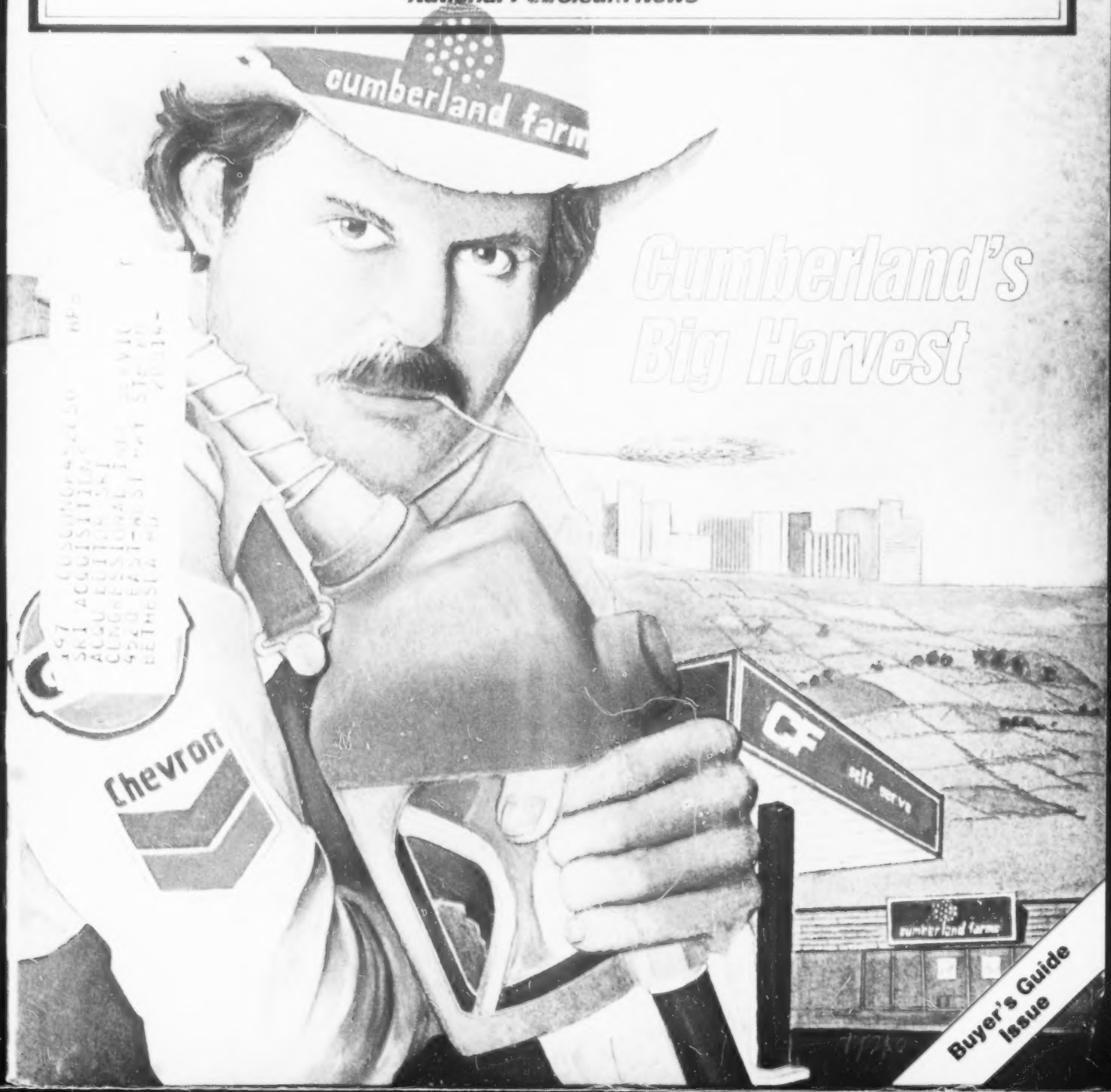
March 1986 $4.50

A Wellhead to Pump Island Price War
POS: Still in a Holding Pattern
How Omaha Jobber Makes Car Washes Pay

NPN
National Petroleum News



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Cumberland Farms, Inc., the nation's third largest C-store chain and soon to be its biggest independent gasoline marketer, is a classic example of the old adage "great oaks from little acorns grow."
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With OPEC pumping an extra 1.5 million to 2 million barrels of oil each day into an already glutted market, gasoline and diesel marketers in late January and early February were getting some of their best price bargains in years.
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Car washes can be a profitable investment for a jobber looking to diversify his operations, even more profitable than convenience stores, says Bill Ashley, president of Crest Petroleum Corp. in Omaha.
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• TRENDS

Insurance Industry Cycles At Root of Premium Hikes

Commercial liability insurance premiums took a big jump in 1985 and appear likely to rise even more in 1986. The nature of the insurance business suggests that rates are not likely to begin to soften before 1987.

Property/casualty insurance is a highly cyclical business, with hard rates and soft rates following one another in predictable patterns. With a knowledge of how the liability insurance business works, oil marketers and other individuals and businesses can see when premiums are likely to rise or fall.

Individuals and companies buy their insurance from primary insurance companies, who in turn buy insurance from re-insurers. Both kinds of insurance companies are interested in generating money to put into outside investments.

When interest rates are high and outside investment opportunities are good, primary insurers and re-insurers underwrite insurance aggressively, triggering premium price wars. When interest rates fall and investment opportunities sour, re-insurers withdraw some or all of their capital, causing insurance companies to raise rates and reduce coverage.

These "hard" and "soft" periods have followed one another every three years for the past two or three decades. The trouble with the current hard period, which started in 1985, is that the preceding soft period lasted way too long—six or seven years—and underwriting losses soared to unprecedented levels.

For example, according to the Insurance Information Institute (III), during the previous soft period from 1973 to 1975, underwriting losses of U.S. property/casualty insurance companies fell to $3.6 billion, which was considered a lot at the time. This is the amount of claims paid versus premiums received. It excludes income from outside investments and, therefore, is not to be considered insurance company earnings or losses.

As insurance companies raised premiums and tightened their underwriting requirements beginning in 1976, premium incomes rose and claims fell, so that by 1978, earlier annual losses had turned to gains of $2.5 billion.

Interest rates began rising steeply, from 6.8% (prime: the rate banks offer their best customers) in 1977 to 18.9% in 1981. This created great demand for capital. One of the worst insurance premium price wars of all time followed.

Property/casualty insurers just about broke even on claims in 1979, but began in 1980 and continued through 1985 to lose greater and greater amounts—to a huge $25.2 billion in 1985, III reports. Many insurance companies were selling liability insurance far below cost.

Insurance executives have been criticized from within and without for mismanagement in allowing underwriting losses to deteriorate so badly in the battle to obtain premium dollars for investment purposes. They are also being criticized now for trying to recoup their losses too fast.

Interest rates began falling in 1982 and are still falling. When re-insurance companies saw investment opportunities fading and underwriting losses mounting, many pulled out the rug in January 1985.

The reason liability premium increases are unlikely to break soon is that the insurance industry in 1985 had still not begun to turn around its losses. That's why rates are not expected to soften in 1986. If rates begin to soften in 1987, which some insurance people consider probable, it will be because underwriting losses have been controlled.

Here are some signs that will help tell what's likely to happen to premiums:

While insurance companies are attempting to cut their underwriting losses, premiums will be hard. When losses begin shrinking and eventually turn to gains, re-insurance capital will return and insurers will begin competing again for premium dollars. This will usher in soft prices.

A rise of interest rates will revive outside investments, and insurance companies will begin again to try to attract capital, selling insurance more aggressively.

The turnaround will also be signaled by rising capital reserves of insurers and re-insurers. There is a 3-to-1 ratio between premiums collected and the capital needed to back it. Capital reserves will have to be built up before new insurance can be written and rates reduced.

For oil marketing and other businesses, the key is to manage until insurance rates start falling again. This is predictable if the signs are understood. It would also be prudent to make plans for the next hard period sure to be coming on the following cycle. —*Mark Emond*

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

DECEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.203	$1.123	$1.208	$1.344
Regions:				
Northeast	1.237	1.151	1.228	1.356
North Central	1.219	1.155	1.232	1.371
South	1.186	1.104	1.189	1.330
West	1.183	1.094	1.189	1.330

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	1/31/86	2/1/85
Gasoline (total)	236,150	233,118
Gasoline (Unleaded)*	117,883	108,629
Jet Kerosine	34,983	35,720
Distillates	137,510	141,813
Residual	48,657	47,635

**Included in gasoline total.*
Source: American Petroleum Institute.

By Mark Emond
WEST

Retail Prices Probably Won't Reflect Drop in Crude—Yet

Tumbling world crude oil prices are causing big changes in the oil industry, but everyone and everything are not affected the same. How will refining and marketing fare, and which companies will get hurt the most? What will the crude price collapse do to West Coast markets, which have already been undergoing wrenching realignments?

Many competitive relationships are being tossed up in the air, and how they settle to the ground may change the balances of the marketplace indefinitely.

First of all, just because crude prices have fallen, even as drastically as they have, doesn't mean product prices will necessarily fall immediately or as much. Each of the major petroleum products, particularly gasoline and distillates, has a competitive life of its own. Whether and how much falling crude prices will affect product prices is rarely a foregone conclusion.

It happens frequently in one area of the country or another that gasoline and distillate prices move in different directions at the same time, even as crude oil prices are rising or falling. Eventually, of course, crude prices do affect product prices, but the timing and degree have to be worked out in the marketplace under the influence of myriad factors.

The notable rule-of-thumb that worked so well under the federal price controls of the 1970s—that a change of $1 bbl. in the price of crude results in a 2.4¢ gal. change in the price of gasoline and distillates—doesn't work predictably in a free market, except over a span of months.

By that time, many things can have happened to obscure the theoretical effects. Furthermore, crude prices have a habit of not staying in one place for long, complicating any attempt to follow changes through to the street.

It may be, for instance, that a sustained $5 bbl. crude price drop would eventually result in a 12¢ gal. fall in product prices, but until and as this happened, substantial maneuvering could be taking place in the marketplace, with profits and losses being experienced unevenly.

Take refining and marketing, for example. Crude price decreases can result in increased refining and marketing margins, as they did last spring. Gasoline prices rose as crude prices fell, providing many companies wider margins. There is a good chance this will happen again, at least on some products and in some areas.

The reason is related to inventory levels. The amount of stocks has a lot to do with how refined product prices react when crude prices break. When prices are falling, marketers would try to sell off their inventories because they would expect to be able to replace them at lower prices. If tanks are full at such a time, markets can be deluged with surplus product, and prices would plunge. But if inventories are low, most marketers have little or nothing to dump.

In January, 1986, when crude prices broke the $20 bbl. barrier for the first time since the extraordinary runup in 1979-80, gasoline stocks were low, on average, giving hope that prices would not drop too badly. On the other hand, distillate stocks were high, immediately triggering price cuts of 3¢-5¢ gal. in some areas, evidently the result of inventory selloff.

U.S. gasoline stocks in mid-January stood at 228 million bbl., off 2.4% from those of January 1985, but off 8% from the average January stocks of the previous three years, the Department of Energy (DOE) reports.

There were regional differences. Gasoline stocks were way down in the Midwest (PAD 2), and very high on the Gulf Coast (PAD 3), compared with the same month a year earlier. Stocks were slightly up on the East Coast (PAD 1), and slightly down on the West Coast (PAD 5) and in the Rocky Mountains (PAD 4).

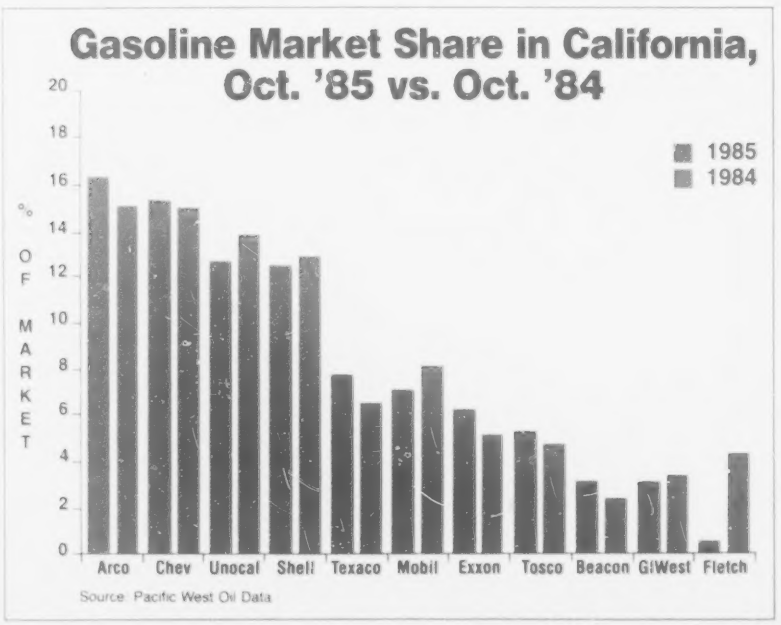
U.S. distillate stocks, on the other hand, stood at 147 million bbl. in mid-January, up 3.5% from January 1985, but up 8.2% from the average January stocks of the previous three years, according to the DOE.

The Gulf Coast was swimming in 30% more distillates than a year earlier, and the West Coast was bountifully supplied with 20% more. The Rocky Mountains were also long with 14% more. East Coast stocks were only 3% longer, but Midwest inventories were down 14%.

These inventory positions should tell a lot about how product prices reacted to plummeting crude prices, and provide insight into what could happen to marketers' margins during this rocky period. Excessive stocks at such times cause product dumping and sharp price-cutting. If stocks are tight, prices have a good chance of remaining firm for a time, providing margin relief.

Because crude prices have been falling and threatening to fall for several months, at least, much of the potential inventory selloff had probably already taken place. If so, refiners and marketers could enjoy significantly higher margins for a few months.

If the crude price war were to fizzle as a result of accommodations made between



non-OPEC and OPEC producers, and with inventories severely drawn down, the prospect of firmer or higher crude and product prices could set off a buying spree to fill tanks before the price goes up. This would drive up product prices probably much in excess of crude costs—that is, more than 2.4¢ gal. per $1 bbl. increase—and create another opportunity for better margins.

West Coast is now scene of another battle

All of this is a highly volatile setting for what is already taking place in West Coast gasoline markets: namely, a battle for the No. 2 position in market share.

A battle for second place may sound drab, like a race for runnerup—ho hum. But in this case, it has all the excitement of a primary contest, because it involves three of the most formidable major oil companies—Chevron, Shell and Unocal.

Let's face it, Arco has taken over No. 1 with authority, at least for the time being. Falling crude prices could affect that, but not easily. If crude prices fell low enough, long enough, Arco could suffer because its own supply on the Alaska North Slope is expensive. This could put the company at a competitive disadvantage, quite the reverse of the substantial advantage it is considered to have had in the past.

For many years when Chevron was No. 1 and dominant, Shell took over the No. 2 spot as a way of life. Shell may be the most successful runnerup gasoline marketer of all time. But when Arco took over first place, Shell was pushed to third, and eventually to fourth behind Unocal. This is in California, where two-thirds of West Coast gasoline is sold.

The accompanying table and graph show California gasoline market shares in October, 1984, and October, 1985, latest month for which figures were available. Arco and Chevron were tied for first in 1984, according to Pacific West Oil Data, with Unocal third and Shell fourth.

At some distance, Texaco, Mobil, and Exxon are having a tussle of their own. The fifth and sixth spots have changed hands between Texaco and Mobil during the past year. Exxon, a relative latecomer to the West Coast, is still in seventh, but is making consistent headway.

The trade has decided somehow that Shell intends to get back the No. 2 position in California. This means it would have to overtake Chevron and Unocal. Shell and Unocal were bunched together in October 1985, with 12.4% and 12.6%, respectively, so this goal seems attainable. Surpassing Chevron, which had 15.3% of the market, would be another matter.

Until Arco took a lead on greater market share, Chevron had been No. 1 almost forever. Shell has always been a follower. A veteran California marketer recalls:

"To my knowledge Shell has never dropped (prices) first. Shell is a follower. When Chevron drops, others follow, including Shell and Mobil. The market leader is still Chevron. If Chevron drops, Mobil and Shell will drop. This is almost routine. Sometimes Mobil drops first, and then Chevron and Shell follow."

Imagine the surprise, therefore, when on January 8, Shell dropped dealer tankwagon (DTW) 1½¢ gal. This was a shock in the trade for two reasons: (1) Shell moved first, and (2) the amount was greater than the almost universal 1¢ gal. by which DTW is dropped.

"Everybody drops a penny at a time," says the veteran. "Nobody in my memory drops more than that." He believes Shell was, in a manner of speaking, serving notice of its intentions.

In the Northwest, an independent gasoline marketer considers Arco the toughest competitor, no surprise, with Mobil next, "which is kind of unusual." Shell has been quicker to respond, but most other companies have also, he adds.

"The way I see it here," says the jobber, "majors are getting more sensitive about moving. They don't necessarily wait even a whole day to move. It's a matter of hours, Shell or anybody else. If you see one price change, you'll see three or four before you can make a copy of the first one."

Shell's apparent ambition to regain No. 2 and resume its successful way of life on the West Coast, which the company calls "West of the Rockies," augurs greater competition, if that's possible.

What crashing crude prices would do to these emerging new market relationships remains to be seen, but it's practically certain they will do something.

Different effects felt from crude price drop

Different oil companies would be affected differently by lower world crude-oil prices. At $20 bbl. or lower, for example, two international companies, both on the West Coast, and six domestic companies, none on the West Coast, would be least affected, according to Salomon Brothers, New York-based investment banking firm.

The analysis was done by Paul Mlotok, international specialist, and Bernard J. Picchi, domestic financial analyst, two of the best minds in the analysis business. They rated the relative strength of 18 oil companies based on the degree of their protection against falling prices.

The best-protected internationals are Exxon and Royal Dutch/Shell. These companies have relatively low debt, enabling them to sustain their cash flow better, and they have high tax rates on non-U.S. crude-oil production, which cushion them from falling crude prices because the companies suffer only the loss of the nontaxed portion of the price drop.

Among the domestic companies rated by Salomon Brothers, two are favored because they are refiner-marketers, Amerada Hess and Ashland. The basis is that refining and marketing could enjoy a widening spread between crude costs and finished product prices. Although Salomon Brothers doesn't follow Tosco, the biggest West Coast independent refiner-marketer might also fall in this group. Amerada Hess has the additional advantage of highly taxed oil, a cushion in this circumstance, as explained above.

Also highly taxed and, therefore, cushioned are Kerr-McGee, Murphy, Pennzoil, and Sun, says Salomon Brothers. Pennzoil has the additional advantage of diversification.

Less sensitive to lower world oil prices, say Mlotok and Picchi, are one international firm, British Petroleum, and four domestic firms, of which one is on the West Coast, Atlantic Richfield. The others are Amoco, Diamond Shamrock, and Standard of Ohio.

BP, Arco, and Sohio have lightly taxed ANS oil, which is less of a cushion against falling crude prices, and Amoco has lightly taxed Egyptian oil. In addition, Amoco has greater exposure to weak natural-gas prices. Arco has increasing bal-

GASOLINE MARKET SHARE IN CALIFORNIA

(October 1985 vs. October 1984)

Company	Oct. '85 % Share	'85 Rank	Oct. '84 % Share	'84 Rank
Arco	16.2	1	15.1	1
Chevron	15.3	2	15.1	1
Unocal	12.6	3	13.8	3
Shell	12.4	4	12.9	4
Texaco	7.7	5	6.5	6
Mobil	7.0	6	8.1	5
Exxon	6.2	7	5.1	7
Tosco	5.2	8	4.7	8
Beacon	3.0	9	2.4	11
Golden West	3.0	9	3.3	9
Fletcher	0.5	11	4.3	10

Source: Pacific West Oil Data

ance-sheet debt, and Diamond Shamrock has a "high payout ratio, even after restructuring."

At the bottom are three international majors, all on the West Coast, Texaco, Mobil, and Chevron, and two domestic majors, one on the West Coast, Unocal, and Phillips.

The internationals are all considered more vulnerable because of their "high U.S. exposure, especially to heavy oil and natural gas." All have high "balance-sheet leverage," principally the result of debt incurred in their acquisitions: Texaco-Getty, Mobil-Superior, and Chevron-Gulf.

Union and Phillips have high debt because of their restructuring to ward off takeover attempts.

Picchi and Mlotok say a $20/bbl world crude price would significantly depress the earnings of all of these companies, 35%-40% for the internationals and 45%-50% for the domestics, compared with the previous year. But it is cash flow that services debt, not balance-sheet earnings, and cash flow has held up very well for oil companies, they explain.

For example, they say, "While industry net income dropped 10% between 1980 and 1984, cash flow actually jumped 25%. If world oil prices fall to $20/bbl., cash flow from operations for the six international oil firms might slide by 10%-15%; for the 12 domestic firms only 10%-12%."

The purpose of the Salomon Brothers analysis was to explore what low world crude prices might do to the value of oil-company stocks, which is not the same as how their competitive relationships might be affected. But it is a helpful indicator and demonstrates how oil companies differ from one another.

By the way, for those who may be wondering whether to sell any oil stocks they have, Mlotok and Picchi think a serious plunge in world crude prices could lead to "panic selling" of stocks, in which case the eight companies they consider least sensitive to lower oil prices "could represent good values as the crisis subsides."

They are Exxon, Royal Dutch/Shell, Amerada Hess, Ashland, Kerr-McGee, Murphy, Pennzoil and Sun.

By Angel Abcede

SOUTH

Price War Results in 84¢ Posting —A Harbinger or Just Isolated?

A fierce little price war between competing stations at a Brownsville, Texas, intersection provoked lines of cars waiting to fill up, angry assumptions by businessmen and four days of the lowest prices in the nation.

When the dust cleared, Israel Araujo, of Araujo's Exxon Service Station, sold 38,000 gal. at 84¢ for regular and 92¢ for unleaded.

Araujo says he lost $7,000, but hopes to recover the money with his shop and wrecker service.

The turmoil occurred in mid-January when the Billups station on the opposite corner dropped its prices. Araujo says it's the third period of time the Billups station had plunged its prices since Araujo bought the Exxon station 9 months ago.

The first time, Billups dropped its prices on regular to about 95¢, Araujo says. The second time, Araujo says prices hit 88¢, but the third bout, which lasted about 4½ days—twice as long as the two previous matches, saw the lowest prices.

"This is America, and (Billups' supervisor) is lowering his prices in the spirit of competition," Araujo says.

He says his Exxon station, at Elizabeth Street and Cental Boulevard, is pulling volume away from Billups. Since he purchased the station, Araujo claims to have raised volume at his pumps from 40,000 gal./month to 100,000 gal./month.

Billups' supervisor, Raul Hernandez, would not comment on the pricing battle and referred questions to Charter Co. headquarters, Billups' parent company, in Jacksonville, Fla.

A spokeswoman for Charter says the incident was an isolated one, initiated by the station supervisor. Joanne Stone of Charter says the company's policy is to price 1¢ below the major oil companies, but that particular Billups station did "not follow policy and the situation has since been corrected."

Since Charter Co. had filed for Chapter 11 bankruptcy in April of 1984, angry rumors were spreading that Billups' price-cutting strategy was linked to an effort toward selling off assets.

Stone of Charter dispelled the rumors, saying that Billups is part of a subsidiary of Charter, called Charter Marketing Co., which has not filed for Chapter 11 and apparently is not affected by the action of its parent company.

Stone emphasized that the Brownsville incident was the doing of the single station and was not company policy.

Phillip Chisolm, executive vice president for the Petroleum Marketers Association of America, says isolated incidents like Brownsville are usually promotional stunts to gain volume. "It's the price drops that last (making competitors change their prices permanently) that count," Chisolm says.

All three Brownsville price wars ended with Billups bringing its prices back up first, Araujo says. "I don't know if he'll do it again," Araujo says of Billups' supervisor. "But things are back to normal now; it looks like he wants to make peace."

Ezell leaves city for western growth

Dallas-based independent, Jim Ezell, is forging west, taking advantage of low gasoline prices and the new frontier that's opening up as the majors consolidate into the metropolitan areas.

"The majors have taken over the metropolitan areas," Ezell says. "But with gasoline prices so low, there's great opportunity in the other areas."

Ezell purchased a Gulf jobbership in Wichita Falls, Texas, including 15 owned stations and supplying a combination of C-store items and Gulf-branded products to 40 more.

Another deal in the works could give Ezell an added jobbership involving 25 more stations by the end of this month, in his move toward Amarillo.

Pushed from the city by the majors' consolidation, Ezell decides to head west.

His Wichita Falls purchase, settled last December for an undisclosed price, increases his volume by 2 million gal./month, bringing his total to 10 million gal./month.

To operate his new Gulf jobbership, Ezell created Quick Fill of Wichita Falls, which stands as a separate entity from his other two operations.

Oil Companies' Downstream Profits Are Tempered by Restructuring

Buoyed by some of the best downstream profits that some companies have had in years, oil company earnings in 1985, nevertheless, were hurt to varying degrees by the ongoing multi-billion dollar restructuring and set aside programs of the past several years.

Exxon, for example, could have been in the $6 billion range for 1985 profits had it not been necessary to set aside $2.1 billion to protect itself against an adverse court decision. Exxon lost the case in January when the U.S. Supreme Court declined to review an overcharge finding dating back to the early 1970s.

Only two of the top eleven oil companies reported profit increases in 1985 — Texaco and Chevron. But since Texaco had written off three-quarters of a billion dollars in 1984, the year-end comparisons of its figures were thrown off balance. Chevron's gain was a little under 1.

Among the many write-downs and restructuring charges that affected 1985 earnings were those of Standard of Ohio, $1.15 billion; Mobil, $808 million for revamp subsidiary Montgomery Ward; Unocal, $250 million to close out a shale oil project; Phillips, $117 million in disposing of mineral assets; and Amerada Hess, with a healthy write-down of its own.

Texaco, which is appealing a $10.5 billion jury verdict resulting from its acquisition of Getty Oil two years ago, said at year's end that it had not yet made any set-aside provisions to protect itself against an adverse ruling down the road. Texaco said it made no provisions in the 1985 earnings statement "because the ultimate outcome of the litigation is not presently determinable."

There was much encouragement for most of the oil companies in their downstream earnings in 1985, however.

Exxon had a 44% increase — $233 million in 1985 versus $161 million in 1984.

Mobil, which had a downstream loss of $4 million in 1984, jumped to profits of $157 million last year. Texaco fared very well too, going from a loss of $309 million in 1984 to a plus of $276 million in 1985. However, Texaco's downstream reports were on a worldwide basis so it was not known how the company fared domestically.

Chevron was up spectacularly in 1985 — $321 million versus $17 million the year before. Some of this reflected the acquisition of the Gulf properties. On the other hand, Standard of Ohio more than doubled its downstream profits in 1985, hitting $424 million. This, too, reflected the addition of the Gulf southeastern properties which Sohio got from Chevron early last year.

It had generally been assumed that 1986 would be a reasonable duplicate of 1985 but without the high-cost restructuring set-asides and write-offs. The free fall of the crude oil prices on the international and domestic markets, however, prompted many analysts and financial experts to pull back on their forecasts until some sort of bottoming out is reached.

"The industry can live with $20 (bbl.) crude," said one marketer, "but if prices keep falling down to as low as $15, things'll get pretty hairy out there."

Fourth Quarter and Full Year Earnings

(millions of dollars)

Company	4th Qtr. 1985	4th Qtr. 1984	% Chng.	Full Year 1985	Full Year 1984	% Chng.
Exxon	$1,805.5	$1,428.0	26.4%	$4,870.0	$5,528.0	(11.9%)
Mobil	425.0	284.0	49.6	1,040.0	1,268.0	(18.0)
Texaco	307.0	(552.0)	—	1,233.0	306.0	300
Chevron	601.0	434.0	38.5	1,547.0	1,534.0	.08
Amoco	390.0	465.0	(18.5)	1,953.0	2,183.0	(10.5)
Shell	652.0	581.0	12.2	1,650.0	1,772.0	(6.9)
Arco	142.0	285.0	(50.2)	(202.0)	567.0	—
Tenneco	87.0	130.0	(37.7)	172.0	631.0	(72.7)
Stand. Ohio	(771.0)	290.0	—	308.0	1,488.0	(79.3)
Phillips	95.0	169.0	(43.8)	418.0	810.0	(48.4)
Sun	414.0	136.0	204	527.0	538.0	(2.0)
Unocal	(134.8)	153.4	—	325.1	700.4	(53.6)
Amer. Hess	(365.8)	4.0	—	(260.5)	170.5	—
Dia. Sham.	47.8	56.8	(15.8)	(604.7)	242.2	—
Ashland (a)	48.1	29.5	63.0	—	—	—
Kerr-McGee	27.6	(35.2)	—	136.5	152.7	(11.0)
Pennzoil	(41.1)	(49.4)	—	113.2	130.5	(13.3)
Murphy	17.2	20.9	(17.7)	79.9	96.2	(16.9)
Am. Petrofina	(39.4)	17.3	—	(10.2)	45.1	—

(a) 1st quarter fiscal ends 9-30.

Refining and Marketing Earnings

(millions of dollars)

Company	4th Qtr. 1985	4th Qtr. 1984	% Chng.	Full Year 1985	Full Year 1984	% Chng.
Exxon						
domestic	$ 88	$ 22	300%	$233	$161	44.7%
foreign	404	143	183	643	247	160
Mobil						
domestic	66	(10)	—	157	(4)	—
foreign	76	(59)	—	173	38	355
Texaco						
worldwide	165	(51)	—	276	(309)	—
Amoco						
domestic	59	9	556	262	123	113
Chevron						
domestic	129	134	(3.7)	321	17	1,788
foreign	46	97	(52.6)	169	105	61.0
Arco						
domestic	NA	NA	—	262	212	23.6
Shell						
domestic	167	165	1.2	269	223	20.6
Stand. Ohio						
domestic	111	30	270	424	200	112
Phillips						
domestic	55	43	27.9	157	83	89.2
foreign	0	2	—	13	14	(7.1)
Sun						
domestic	15	10	50.0	121	19	537
foreign	9	(3)	—	7	5	40

The Gasoline Derby: Chevron Likely To Hold On to Top Marketing Spot

The definitive figures won't be available for a couple of months yet, but the indications are that Chevron, Texaco and Exxon will wind up One, Two and Three in the annual derby as to who is the nation's biggest gasoline marketer.

Chevron and Texaco vaulted into the lead in 1984 with their acquisitions of Gulf and Getty (*NPN*—June, '85, p27).

Because both were mandated by the courts to spin off some of the acquired stations and marketing facilities, it was at first believed that 1985 might see their reigns being of short duration.

Chevron sold its Gulf assets in the Southeast to Standard of Ohio early last year and had signed an agreement in principle to dispose of Gulf's northeastern assets to Cumberland Farms just before the end of the year. Cumberland will not get possession of the Chevron-Gulf facilities until later this spring, however, thus deferring temporarily another big technical cut in Chevron's gasoline gallonage. But Chevron and Cumberland also have come to an evergreen supply agreement, so Chevron will hang on to 2.5 billion gal. of gasoline, and probably the derby leadership for several more years, at least.

Texaco has completed the spinoff of the Getty stations and facilities but it, too, has a short-term supply contract with Getty Petroleum Co. for the northeastern and Mid-Atlantic states operations. Thus, its total gallonage may shrink a bit faster in 1986.

Exxon is breathing hard on Texaco's tail, according to the product sales figures that were released in the earnings reports by the various oil companies.

Chevron increased its total product sales in 1985 while Texaco and Exxon declined slightly. It must be remembered that the figures in the table below are for all products, not just gasoline. But they can be considered an indication of which way the gasoline race was run in 1985 and the probable winners. *NPN*

U.S. Oil Product Sales

(000 b/d)

Company	4th Qtr. 1985	4th Qtr. 1984	% Chng.	Full Year 1985	Full Year 1984	% Chng.
Chevron	1,604	1,851	(13.3%)	1,683	1,560	7.9%
Texaco	1,170	1,170	—	1,156	1,180	(2.0)
Exxon	1,121	1,119	—	1,120	1,149	(2.5)
Shell	1,051	948	10.9	953	903	5.5
Amoco	939	878	6.9	911	860	5.9
Arco	NA	NA	—	NA	NA	—
Mobil	814	711	14.5	789	708	11.4
Sun	NA	NA	—	NA	NA	—
Stand. Ohio	626	432	44.9	604	410	47.3
Unocal	NA	NA	—	NA	NA	—
Phillips	551	494	11.5	528	456	15.8
Amer. Hess	NA	NA	—	NA	NA	—

Oil Shale Project Gets Loan Guarantee

In what is expected to be the final action by the Synthetic Fuels Corporation, the agency's board of directors approved a controversial $327 million loan guarantee for Unocal's oil shale project in Parachute Creek, Colo.

Congress, citing poor administration and a glut of oil on the world market, voted last year to kill funding for the synfuels agency. Doors close on the agency in April.

Despite protests from Congress, members of the synfuels board claimed they had a "legally binding commitment" to Unocal for the extra loan guarantees. Rep. John Dingell (D-Mich.), a critic of the Unocal project, said "This brand of corporate socialism does seem bizarre to say the least."

EPA's Move Against Petrocoal Upheld

The U.S. Supreme Court has upheld the Environmental Protection Agency's decision to withdraw American Methyl Corp.'s Petrocoal from the market.

The EPA first granted a waiver for Petrocoal—a blend of unleaded gasoline, methanol and other additives—in September 1981. The Motor Vehicle Manufacturers Assn. and General Motors immediately protested the decision, however, claiming American Methyl provided faulty data to the EPA concerning emissions from Petrocoal. The EPA then initiated proceedings to revoke the waiver.

In 1985, the District of Columbia Court of Appeals claimed EPA erred in granting the initial waiver and gave the agency permission to prohibit American Methyl from marketing the fuel.

Additives Update: "Modest" Growth Ahead

An update on the outlook for the petroleum additives industry over the next three to four years indicates "modest" growth is possible but that's about all. The update was issued by Frost & Sullivan, a market research firm.

The report says volume demand likely will increase from 1.88 billion pounds in 1985 to 1.94 billion pounds in 1990 but that in dollar terms the market will erode from $1.36 billion in 1985 to $1.35 billion in 1990.

Detergents/dispersants, viscosity index improvers and extreme pressure/anti-wear agents comprise more than 70% of the total volume and almost 60% of the total value of additives in 1985, the report says.

Chief reasons cited for the lack of growth include only slight gains in the use of lubricating oils and a slow decline in gasoline consumption at least until 1990.

NHTSA Proposes CAFE Rollback

The federal government has proposed rolling back fuel efficiency requirements in 1987 and 1988 model cars from 27.5 to 26 miles per gallon.

The National Highway Traffic Safety Administration proposal came as good news to Ford and General Motors, both of which faced the possibility of millions of dollars in fines if they had not met the higher corporate average fuel economy (CAFE) standards. NHTSA said its proposal was "responding to concerns over possible automobile industry job losses and restrictions on consumer choice."

Chrysler, which has moved into the market of smaller, more fuel efficient cars in recent years, opposes relaxation of the CAFE standard.

NHTSA set the precedent for this year's proposal last October, when it dropped the fuel standard on 1986 cars from 27.5 to 26 mpg. *NPN*

Chevron Tops in Credit Card Sales, Shell Leads in Card Accounts—Report

Chevron generated more credit card sales dollars in 1985 than any other oil company even though it ranked only second best in the total number of active accounts in operation and the total number of proprietary cards ostensibly in the hands of consumers.

This was one of the highlights of the latest oil company credit card sales analysis by The Nilson Report, a private newsletter that's circulated among credit card executives in oil and other industries. It is published monthly but has no set schedule for updating its oil industry data.

Nilson said Chevron generated $4.4 billion in credit card sales in 1985—$3.9 billion of it via its own cards (including Gulf's) and $500 million via bank cards.

The report said Shell, which topped the field with 4.8 million active charge accounts and 15.6 million proprietary cards, ranked third in total credit card sales dollars, behind Texaco. Shell had $3.5 billion in total sales while Texaco had $4.3 billion. Texaco, like Chevron, also had a half billion in bank card sales. Shell's charges were confined to its own cards, although some individual retailers accepted bank cards.

Nilson said the number of proprietary cards issued by oil companies rose from 113 million in 1984 to 117 million in 1985. Total accounts, active accounts and spending have remained about the same, the latter about $26 billion annually, Nilson said.

The newsletter took note of the fact that the use of bank cards for gasoline purchases has risen significantly in the past three years, increasing from $1.8 billion three years ago to $2.4 billion in 1985. Bank cards, it said, are now generating about 8.5% of the credit card sales at service stations. On the other hand, the so called T&E cards (American Express, Diners, Carte Blanche, etc.) are moving along at a much slower pace and are estimated now at about 1% of total charges.

Nilson said the average sale on both bank and T&E cards run 10% to 20% higher than on the proprietary cards which average $17.79 for 12.8 gal. of gasoline at $1.39/gal. Nilson said card holders averaged 4.66 purchases monthly (56 per year) for a total of $996.24 annually per active account.

Nilson said credit card losses in 1985 amounted to $192.7 million, which was 0.73% of credit card sales. Of that amount, it said, $171.5 million went to credit losses and $21.2 million to fraud.

The latest analysis also included a report on Canadian credit card usage. There Shell led the field in the number of active accounts and in both proprietary and total sales. Significantly, Shell as a company accepts bank and T&E cards in Canada and got more than half of its 1985 volume from these two sources. Shell had $1.0 billion in credit card sales in Canada in 1985, $412.5 million in proprietary cards and $590.5 million in third-party cards. Texaco had more of its own cards in place in Canada than Shell but generated only $764 million in charge sales, of which $348 million were bank cards and $30 million T&E.

Information on The Nilson Report can be obtained via P.O. Box 49936 (Barrington Station), Los Angeles, CA 90049; (213) 476-5094. NPN

15 Oil Company Credit Cards in the U.S.—1985

(Add 000 in all categories)

Company	Active Accounts	Total Proprietary Cards	Proprietary Sales Volume	Bank Card Sales Volume	T&E Sales Volume	Total Credit Sales
Shell	4,800	15,581	$3,649,800	—	—	$3,649,800
Chevron Gulf	4,500	15,400	3,910,000	$503,000	—	4,413,000
Texaco	3,700	14,971	3,512,000	502,006	$250,000	4,264,006
Amoco	3,612	14,063	3,314,445	—	21,443	3,335,888
Exxon	3,244	12,200	2,810,818	—	—	2,810,818
Mobil	3,100	13,600	2,033,000	268,000	—	2,301,000
Unocal	2,122	7,000	2,089,000	311,000	32,000	2,432,000
Sohio	1,944	5,000	1,495,000	88,000	—	1,583,000
Sunoco	1,210	4,842	821,461	95,454	4,988	921,903
Phillips	1,161	4,613	1,001,603	150,555	—	1,152,158
Conoco	510	1,400	240,762	50,436	—	291,198
Citgo	300	2,247	220,528	92,242	—	312,770
Marathon	250	103	225,232	12,662	—	237,894
Petrofina	201	626	180,312	—	—	180,312
Total Petro.	185	825	160,444	114,000	—	274,444
Totals for top 28 oil companies:	33,533	117,483	$26,444,025	$2,467,846	$333,201	$29,245,072

5 Oil Company Credit Cards in Canada—1985

Shell	474	1,566	$412,509	$510,000	$80,475	$1,002,984
Texaco	451	1,670	386,372	347,600	30,000	763,972
Esso	421	1,498	342,387	322,000	—	664,387
Gulf	232	799	178,187	191,000	—	369,187
Petro	221	867	219,465	211,000	—	430,465
Totals for top 11 oil companies:	2,025	7,255	$1,755,814	$1,826,552	$120,475	$3,702,841

Source: The Nilson Report, December, 1985, Issue #370